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Meeting*

[Signature]

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May 23, 1996

SENT VIA POUCH MAIL

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SUBJECT: **Forsyth Bundeling Approach Presentation**

Per your request, attached is a copy of the "Bundeling Approach" presentation Jim Farmer made at our Sales Area Meeting.

Call if you have any questions.

Don

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Meeting Objectives:

1. *Confirm our ability to be competitive on Forsyth/Total RJR with "the bundling approach".*
2. *Identify options to be more competitive on "dead net" price when necessary given today's environment.*
3. *Confirm role/strategies/key issues for MONARCH/BEST VALUE.*
4. *Decide on DORAL SOC application to MON/BV and/or Distr. PL's.*
- ~~5. *Confirm target accounts/guidelines.*~~

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Current Pricing

List \$8.79

Terms/EFT .32

O/Invoice \$2.00

Alliance Accrual \$.30

S.O.C. \$.50

\$5.67

Wholesale Partners \$0 - .44

\$5.67 ↔ \$5.23

\$5.46 Partners Avg. (21¢)

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Specific to Forsyth

\$ 5.46

\$5.46

Total RJR Merch. Accrual

.25

Est. Avg.

.25

DORAL SOC

0 ↔ .50.20

.25 - .75

.45

Driven by Forsyth

Merch. RDA's

0 ↔ .60

.45

Total RJR Partners
(ex. Forsyth)

0 ↔ .16

.10

Merch. Accrual (ex. Forsyth)

.15 ↔ .50.30\$.40 ↔ \$2.01\$1.30

Net Value Price of PL

\$5.06 ↔ \$3.45

\$4.16

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Specific to Bundling:

- **Some *More Than Competitive***
- **Most *Very/Competitive***
- **Few *Don't Get You There***

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RJR Bundling Scenario - Chain X (Indirect)

Example #1

Input:

127 Stores
RJR CPW = 44 per
PL CPW = 20 per
RJR Merch. = \$ 210 mo.
Star PL \$4.76 + \$.43 = \$5.19

Calculation:

| | |
|------------------|---------------|
| PL List | \$8.79 |
| O/I | \$2.00 |
| Alliance Accrual | \$.30 |
| SOC PL | <u>\$.50</u> |
| | <u>\$5.99</u> |

Assumption:

Forsyth \$.80 ctn. short on PL (\$106M)

Bundling:

Merch. Payments \$.58 Without, PL would drop 3 grids (\$50mo) or \$.58 weighted to PL

Conclusion:

When bundling PL and other programs together, our PL is worth \$.27 per carton more than Star's.
\$.27 x 132,080 PL cartons = +\$35,661 per yr

Merch. Accrual PL Only \$.25 On all PL sales

Merch. Accrual FP/BS \$.21 \$.15/ctn. on FP/BS ctns. or \$.21 weighted to PL (drop from \$50 to \$10)

DORAL SOC \$.03 If we have PL, account gets \$.50/ctn. on DORAL if SOS 75%+

Dead Net w/Bundling \$4.92

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RJR Bundling Scenario - Chain Y (Direct - Multiple Branches)

EXAMPLE #2

Input:

750 Stores
RJR CPW = 192 per
PL CPW = 64 per
RJR Merch. = \$ 449 mo.
PM Exclus. = \$ 607 mo.
Star PL = \$4.76 ctn.

Calculation:

| | |
|------------------|---------------|
| PL List | \$8.79 |
| Terms/EFT | .32 |
| O/I | 2.00 |
| Alliance Accrual | .30 |
| SOC PL | .50 |
| Net PL | <u>\$5.67</u> |

Assumption:

RJR \$158 mo. short on merch.
payments (\$1.4MM)

Forsyth \$.91 ctn. short on PL (\$2.3MM)

Bundling:

| | | |
|-------------------------------------|-----|--|
| Wholesale Partners on PL Only | .16 | on each ctn. of PL |
| Wholesale Partners PL to Overall | .08 | weighted on PL (\$.08 on half of ctns. for \geq SOS) |
| Merch. Payments | .50 | without PL would drop 2 grids or \$.50 weighted to PL would lose \$2,160,000 merch. accrual by going with Star only (\$324 to \$84mo.) |
| Merch. Accrual PL only | .25 | |
| Merch. Accrual FP/BS | .61 | |
| DORAL SOC | .24 | if we have PL, acct. gets \$.50 ctn. on DORAL if SOS 75%+ |

Conclusion:

When bundling our PL and other
programs together our PL is worth
\$.93 per carton more than Star's.
 $$.93 \times 2,496,000 = \2.32MM
RJR Bundled +\$2.32MM
PM -\$ 1.4MM
+\$.92MM

Dead Net w/Bundling \$3.83

If total value of PL considered through
"bundling" chain is still +\$.92MM better
off with RJR.

- ☐ In addition, this account would receive no
merch. accrual, no gap or ceiling \$ if PM
exclusive = additional \$2.8MM lost from
RJR while only picking up \$1.7MM from
PM.

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RJR Bundling Scenario - Candy/Tobacco Distributor Z

Example #3

Input:

Partners Earnings = \$.22

| | <u>Base SOM</u> | <u>End SOM</u> |
|---------------|-----------------|----------------|
| Total RJR | 31.4 | 32.3 |
| Total RJR SAV | 34.8 | 37.1 |
| Total RJR FP | 22.7 | 23.1 |

Star at \$4.76

Conclusion:

While Forsyth PL is still \$.21 a carton higher than Star, our retail bundling still comes into play in wholesaler need to satisfy his customers. Also, by driving a much lower price you are inviting another industry FP rollback.

Calculation:

| | |
|------------------|---------------|
| PL List | \$8.79 |
| Terms EFT | \$.32 |
| O/I | \$2.00 |
| Alliance Accrual | \$.30 |
| PL SOC | <u>\$.40</u> |
| Net PL | \$5.77 |

Bundling:

Wholesale Partners \$.22
PL Only

| | | |
|-------------------------------------|---------------|---|
| Wholesale Partners PL to Overall | <u>\$.58</u> | Without PL would not have achieved RJR SOM or SOS base shares (\$.08/ctn. on all volume x PL = 1,586,252/ctns. = -\$126,900) |
|-------------------------------------|---------------|---|

Dead Net w/Bundling \$4.97

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Net. . . "Bundling" Works In Majority Of Situations

- **Field must understand and apply the "bundling" principles consistently**
 - Forsyth/Acct. Mktg. Svcs. group developing template to facilitate (Retail/Wholesale Investment Summary)
- **Bundling process varies between indirect/direct chains, but process is generally effective on both.**
- **In few exception cases, RJR/Forsyth may have to step up.**

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Even when "bundling", some situations exist where the "dead net" retail price of Forsyth is not competitive in a given market/chain (e.g., 99¢ price point)

... How do we "step-up" with existing dollars?

| Partner Type: | <u>Wholesale</u> | | <u>Retail</u> | |
|-----------------|---|-----------------------------|--|-----------------------------|
| | <input type="checkbox"/> 15% PL Volume | | <input type="checkbox"/> 85% PL Volume | |
| | <input type="checkbox"/> 68% PL Contracts | | <input type="checkbox"/> 32% PL Contracts | |
| | <input type="checkbox"/> Less Control | | <input type="checkbox"/> Control Environment | |
| Net. . . | <i>Lower Priority</i> | | <i>Higher Priority</i> | |
| Options: | <u>Wholesale</u> | | <u>Retail</u> | |
| | <input type="checkbox"/> Utilize Forsyth Partner \$\$ | | <input type="checkbox"/> Utilize DORAL SOC weighted to Forsyth | |
| | <input type="checkbox"/> Utilize Forsyth SOC \$\$ | | <input type="checkbox"/> Utilize Merch. Accrual \$\$ (on Forsyth PL volume) | |
| | <input type="checkbox"/> Utilize Other Partners \$\$ | | <input type="checkbox"/> Utilize Forsyth SOC \$\$ | |
| | <input type="checkbox"/> Reduce Forsyth Partners Payment | | <input type="checkbox"/> Utilize Mech. Accrual \$\$ (FP/BS from Forsyth PL) | |
| | and Establish National War Chest | | (without compromising promotion plan) | |
| | (e.g., \$.18 → \$.06 → \$6.0MM) | | | |
| Net. . . | <i>Less Flexibility</i> | | <i>Greater Flexibility</i> | |
| Where/How: | National or Selective | | National or Selective | |
| | <i>Less Flexible</i> | <i>Less Flexible</i> | <i>Less Flexible</i> | <i>More Flexible</i> |

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Merchandising Accrual \$ Example:

Input:

- ☐ 127 Store Chain
- ☐ All RJR CPW = 44
- ☐ Forsyth CPW = 20
- ☐ Merch. Acc. w/PL = \$50 mo.
- ☐ Merch, Acc. w/o PL = \$10 mo.

Available for FP
Promotions

PL Direct Contributions
(132,080 ctns.)

Available for FP
Promotions

PL Indirect Contribution

| Annual Accrual \$ | |
|---------------------------|------------------------|
| Disadvantaged (\$.10) | Advantaged (\$.25) |
| <u>\$15,240</u> | <u>\$76,200</u> |
| 0 | <u>(\$33,020)</u> |
| \$15,240 | \$43,180 |
| 0 | <u>(\$27,940)</u> |
| <u>\$15,240</u> | <u>\$15,240</u> |